

TOTAL PETROLEUM (NORTH AMERICA) LTD.

**TOTAL**

Annual Report  
1972



## TOTAL PETROLEUM (NORTH AMERICA) LTD.

### *Facts at a Glance*

	<u>1972</u>	<u>1971</u>
Proven oil and condensate reserves (bbls.) . . . . .	35,859,501	34,447,800
Oil and condensate production (bbls.) . . . . .	2,028,611	1,696,569
Proven gas reserves (M cubic feet) . . . . .	175,295,000	164,575,000
Natural gas sales (M cubic feet) . . . . .	4,437,506	4,128,975
Net land holdings (acres) . . . . .	4,290,767	4,436,335
Crude oil refined (bbls.) . . . . .	11,091,413	11,084,578
Refined product sales (bbls.) . . . . .	15,377,590	14,015,976
Net earnings . . . . .	\$ 3,152,000	\$ 2,166,000
Cash flow from operations . . . . .	8,249,000	7,550,000
Total revenues and other income . . . . .	101,166,000	88,337,000
Working capital . . . . .	11,493,000	14,107,000
Shareholders' equity . . . . .	74,408,000	72,113,000
Total assets . . . . .	131,460,000	134,254,000

# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## Annual Report 1972

### ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held at the head office of the Company, 1200 Standard Life Building, 639 - 5th Avenue Southwest, Calgary, Alberta, at 10:15 a.m. Mountain Daylight Saving Time on Thursday, May 17, 1973.



# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## DIRECTORS

REID BRAZELL .....	Frankfort, Michigan
HENRI J. CHAMPIN .....	Paris, France
MARTIN E. CITRIN .....	Bloomfield Hills, Michigan
F. CAMPBELL COPE .....	Montreal, Quebec
ETIENNE L. DALEMONT .....	Paris, France
PHILIPPE DUNOYER DE SEGONZAC .....	Paris, France
J. CAMILLE GENTON .....	Paris, France
JAMES W. GLANVILLE .....	New York, N.Y.
ANDRE M. JACQMIN .....	Alma, Michigan
DAVID L. TORREY .....	Montreal, Quebec

## OFFICERS

ETIENNE L. DALEMONT .....	Chairman of the Board
ANDRE M. JACQMIN .....	President
PAUL H. GUTKNECHT .....	Vice President - Finance and Treasurer
BERNARD C. DUVAL .....	Vice President - Exploration
WILLIAM F. KELLOCK .....	Vice President - Production
WILLIAM G. TUCKER .....	Vice President - Administration, Secretary and General Counsel
KENNETH R. BUCKLER .....	Vice President - Manufacturing Supply and Transportation
JOHN E. FAWKE .....	Vice President - Marketing
CLIFTON D. BENGTON .....	Assistant Secretary
DON W. GODFREY .....	Assistant Secretary
COLIN S. MACDONALD .....	Assistant Treasurer

### HEAD OFFICE

639 FIFTH AVENUE S.W.  
CALGARY, ALBERTA, CANADA T2P 0M9

### U.S. MAIN OFFICE

EAST SUPERIOR STREET  
ALMA, MICHIGAN 48801

### REGISTRARS

THE ROYAL TRUST COMPANY  
Calgary, Toronto and Montreal, Canada.  
MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK  
New York, N.Y., U.S.A.

### TRANSFER AGENTS

MONTREAL TRUST COMPANY  
Calgary, Toronto and Montreal, Canada.  
MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK  
New York, N.Y., U.S.A.

### EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE  
MONTREAL STOCK EXCHANGE  
AMERICAN STOCK EXCHANGE

### AUDITORS

PRICE WATERHOUSE & CO.

### PRINCIPAL SUBSIDIARY

TOTAL LEONARD, INC.



# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## TO THE SHAREHOLDERS:

Your Directors are pleased to present this sixteenth annual report reviewing the operations and financial position of your Company for the fiscal year ended December 31, 1972.

### Financial

Net income for the year increased by 45% to \$3,152,000 or 33¢ per Common share compared with \$2,166,000 or 19¢ per Common share for 1971. Earnings per share were calculated after deduction of dividends of \$.70 per share in each period on the Company's Preferred Series A shares and based on 7,021,207 average Common shares outstanding in 1972 as against 6,826,777 in 1971.

Revenue from all sources during the year totalled \$101,166,000 (\$88,337,000 in 1971) while cash flow from operations amounted to \$8,249,000, up from \$7,550,000 in the previous year.

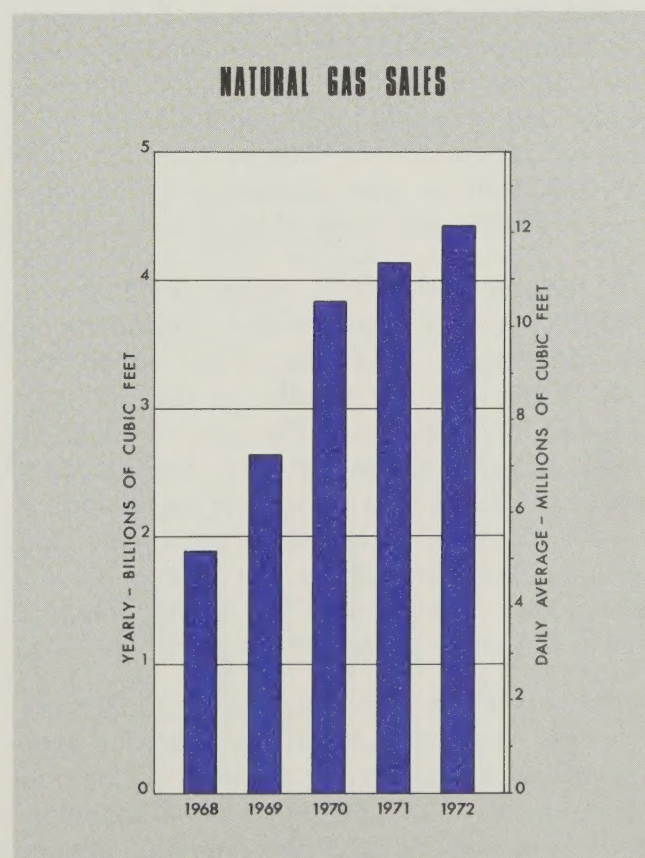
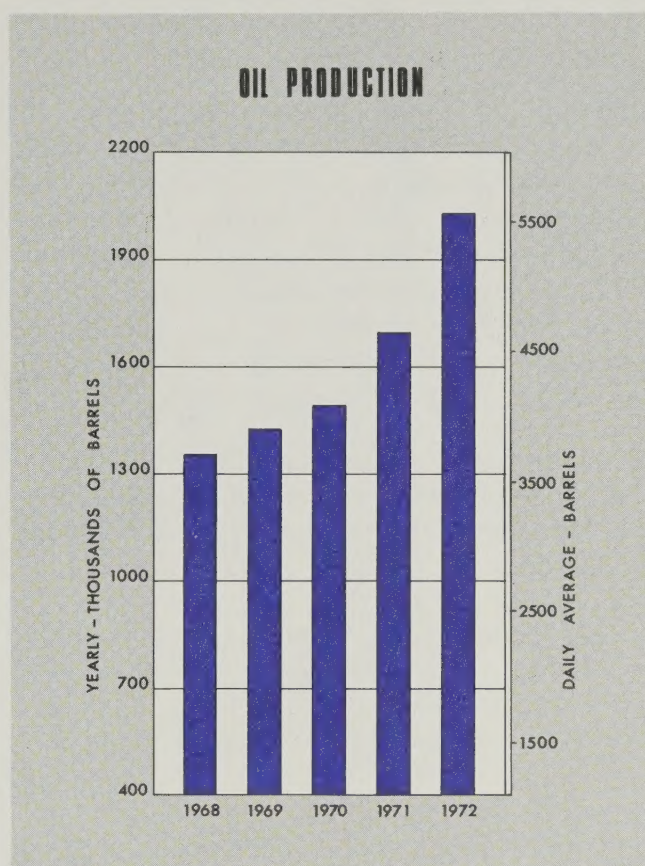
All financial results are expressed in United States dollars.

### Production and Reserves

The total crude oil and condensate produced by your Company and its subsidiaries during 1972 amounted to 2,028,611 barrels for an average of 5,543 barrels per day, representing an increase of 19% over 1971. Natural gas sales increased by 7% to a total of 4.4 billion cubic feet for the year or an average of 12.1 million cubic feet per day.

After providing for the year's production of 2,028,611 barrels, your Company's estimated proven reserves of oil, condensate and LPG's at the end of 1972 amounted to 35,859,501 barrels with additional probable reserves bringing the total to 45,109,215 barrels. This compares with a corresponding aggregate of 43,401,539 barrels at the end of the previous year.

The Company's estimated proven developed gas reserves, after making allowance for the year's production of 4.4 billion cubic feet, totalled 175.3 billion cubic feet with additional probable reserves of 39.2 billion cubic feet at





year end, as compared to 164.6 billion cubic feet of proven and 40.2 billion cubic feet of probable gas reserves at the end of the previous year.

## Exploration and Development

During 1972 your Company participated directly in the drilling of twenty-six wells, of which twenty were classified as exploratory and six as development. In addition, interests were held in nine exploratory wells drilled under farmout by other companies without cost to TOTAL. This drilling program resulted in five exploratory successes (two gas wells and three oil wells) and five successful oil development wells.

The successful oil development wells are all situated in Alberta. Two are located in the Enchant area, two at Medicine River and one at Carson Creek in the Swan Hills region.

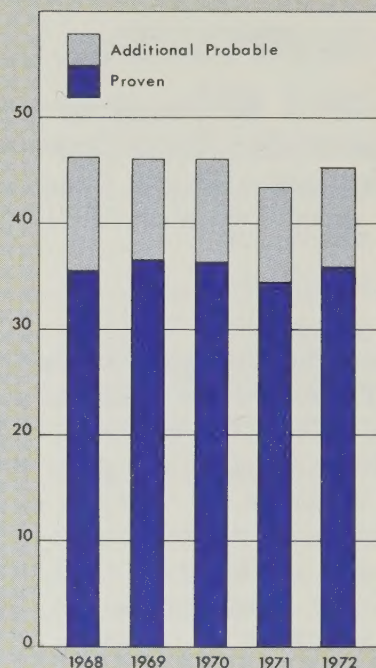
Of the successful exploratory wells, one gas well is situated in the Dixonville area of Alberta, while one gas well and three oil wells are located in Mason County, Michigan on a 6,000 acre block in which TOTAL's interests range from 54% to 60%. Drilling and seismic exploration is continuing on these lands as well as to the northeast in Wexford, Otsego, Grand Traverse and Crawford counties on lands where TOTAL holds an 18¾% interest. It will be recalled that the initial Niagaran Reef discovery (gas condensate), in which your Company participated at the end of 1971, is located in Kalkaska County and since that time TOTAL has substantially strengthened its land position in Michigan with holdings now amounting to 355,000 gross (198,000 net) acres of mineral leases.

In the Mackenzie Delta region of the Arctic Slope, planning and preliminary preparation is now underway for the drilling of two exploratory wells in the next few months by the TOTAL-ELF-AQUITAINE group. The first well is to be drilled under a farmin obtained from another company and will earn an interest for the group in additional permit acreage located near the group's present holdings in the area as shown on the map included with this report. The second well is to be located on the group's permits.

With respect to offshore operations, present plans call for the participation by your Company in a drilling program to be conducted this coming summer in the waters off the coast of Labrador. This will be the second offshore drilling attempt

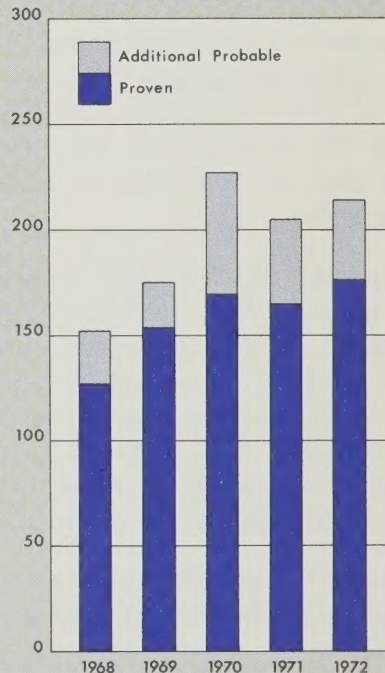
### REMAINING OIL RESERVES

MILLIONS OF BARRELS



### REMAINING GAS RESERVES

BILLIONS OF CUBIC FEET







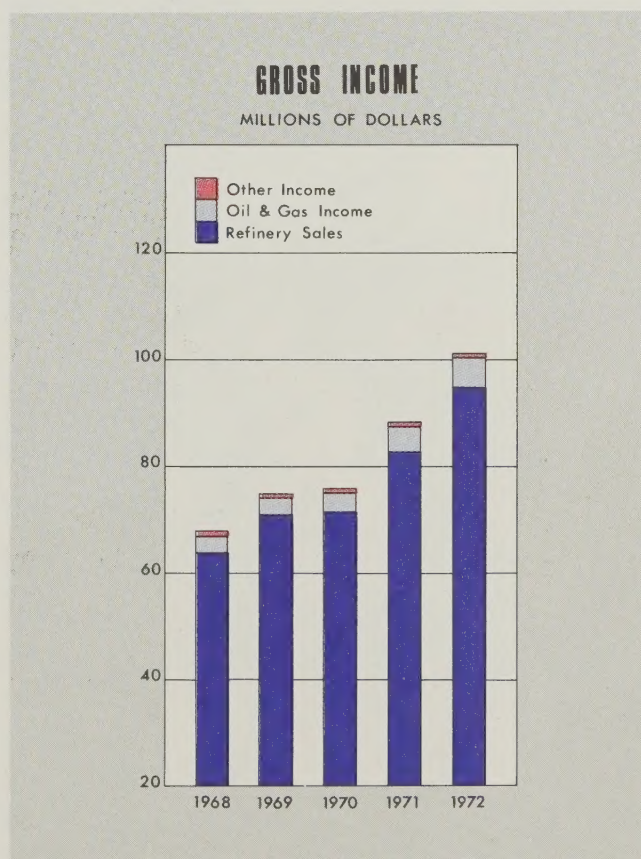
*A portion of the Company's refinery at Alma, Michigan, showing the recently constructed 10,000 BPD Platformer in the foreground.*

by the Labrador group, the first having been prematurely suspended by adverse sea and ice conditions in 1971. Your Company's interest in this project and in the 33 million acre spread of offshore permits (shown on a separate map incorporated with this report) is 5%.

## Refining

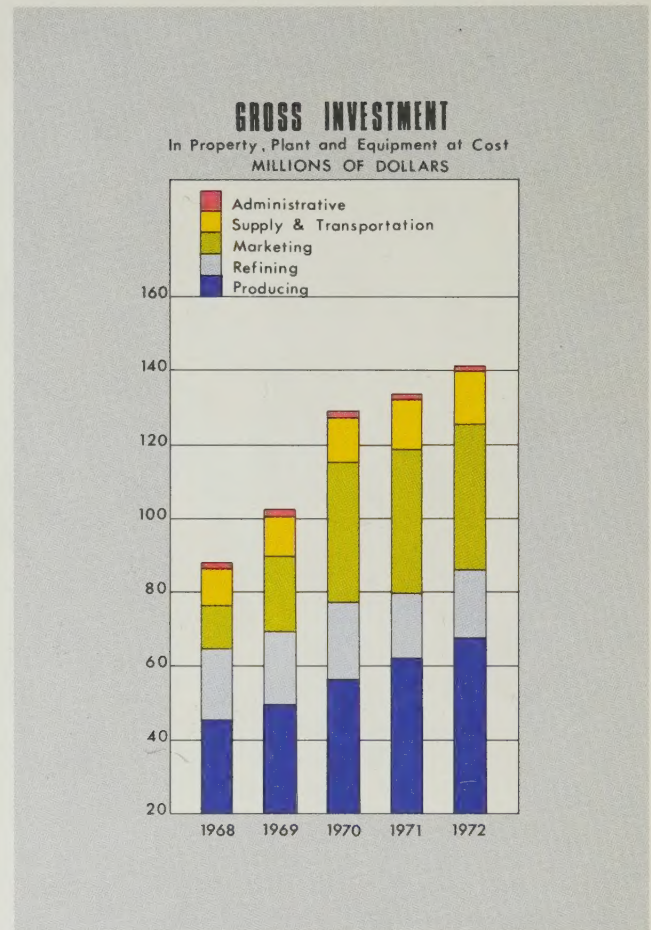
Refining throughput totalled 11,091,413 barrels for an average of 30,300 barrels per day during 1972, representing a slight increase over the comparative total for the previous year. Adequate quantities of crude oil were available to run the refinery at capacity throughout the year.

The new 10,000 BPD Platformer was completed in July, 1972 and operations have been





very satisfactory since start-up. Construction was also completed on the revamp of crude processing facilities and the new facilities were put into operation in December, 1972. The Alma Refinery now has a capacity to process in excess of 40,000 barrels per day of crude oil and condensate.



*An oil storage tank on the site of the Malstrom-Williams well in Mason County, Michigan.*





*A service station in Ann Arbor, Michigan. One of more than 900 outlets selling the Company's products in Michigan and Wisconsin.*

## Marketing

Refined product sales rose for the eighth consecutive year to a total of 15,377,590 barrels in 1972, an increase of approximately 10% over 1971 sales volumes. Gasoline and distillates (home heating oils), which account for 75% of product sales, increased by 12% and 14% respectively.

Premium gasoline sales declined approximately 4% below the previous year's level as a result of lower octane requirements of late-model automobiles, while sales of TOTAL Low-Lead gasoline increased in 1972 to account for approximately 12% of all TOTAL brand gasoline sales. Sales of both aviation fuel and residual fuels were also significantly higher in 1972, but were offset to some extent by a decline in petrochemical and naphtha sales.

Asphalt is the third largest volume product of your Company and combined sales of road, industrial and roofing asphalts reached record levels in 1972. TOTAL was the exclusive supplier of the asphalt used in construction of the world's largest pumped storage reservoir which was completed in the fall of 1972 at Ludington, Michigan.

Gasoline price wars in Michigan, and especially in the Detroit area, continued through most of 1972; signs of stabilization began to appear in the second half of the year.

The TOTAL Brand Division, organized during the first quarter of 1972, made significant progress during the last nine months of the year in developing sales and improving product realizations.

## General

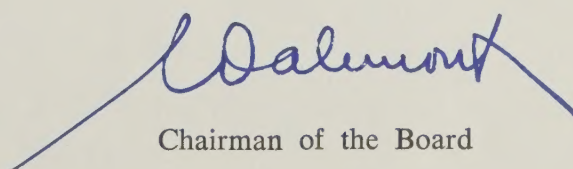
Your directors wish to express the gratitude and appreciation of the Company for sixteen years of capable service given by Mr. Stephen Saboff, who resigned his positions in November of last year as a Director and Executive Vice President, Refining and Marketing of the Company, as well as a Director and President of Total Leonard, Inc.

At a meeting of the Board of Directors held on February 14, 1973, Mr. Martin E. Citrin of Bloomfield Hills, Michigan, was elected a Director of the Company. At the same meeting, the following new officers were elected: Mr. Kenneth R. Buckler, Vice President - Manufacturing, Supply and Transportation; Mr. John E. Fawke, Vice President - Marketing; Mr. Andre M. Jacqmin, Vice President - Co-ordination, Planning and Corporate Development.

At a further meeting of the Board held on April 9, 1973, your directors regretfully accepted the resignation of Mr. John S. Poyen who, for personal reasons, resigned his positions effective April 1, 1973 as a Director and President of the Company and as a Director, Chairman of the Board and President of Total Leonard, Inc. At the same meeting of the Board, Mr. Andre M. Jacqmin was elected a Director and President of the Company.

Once again your directors also wish to express their appreciation for the efforts and co-operation given by all of the employees, the continued support of our shareholders and the loyalty and confidence accorded us by our customers.

Submitted on behalf of the  
Board of Directors.



Chairman of the Board

April 12, 1973.

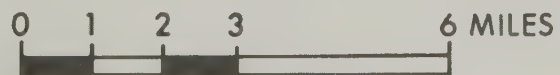
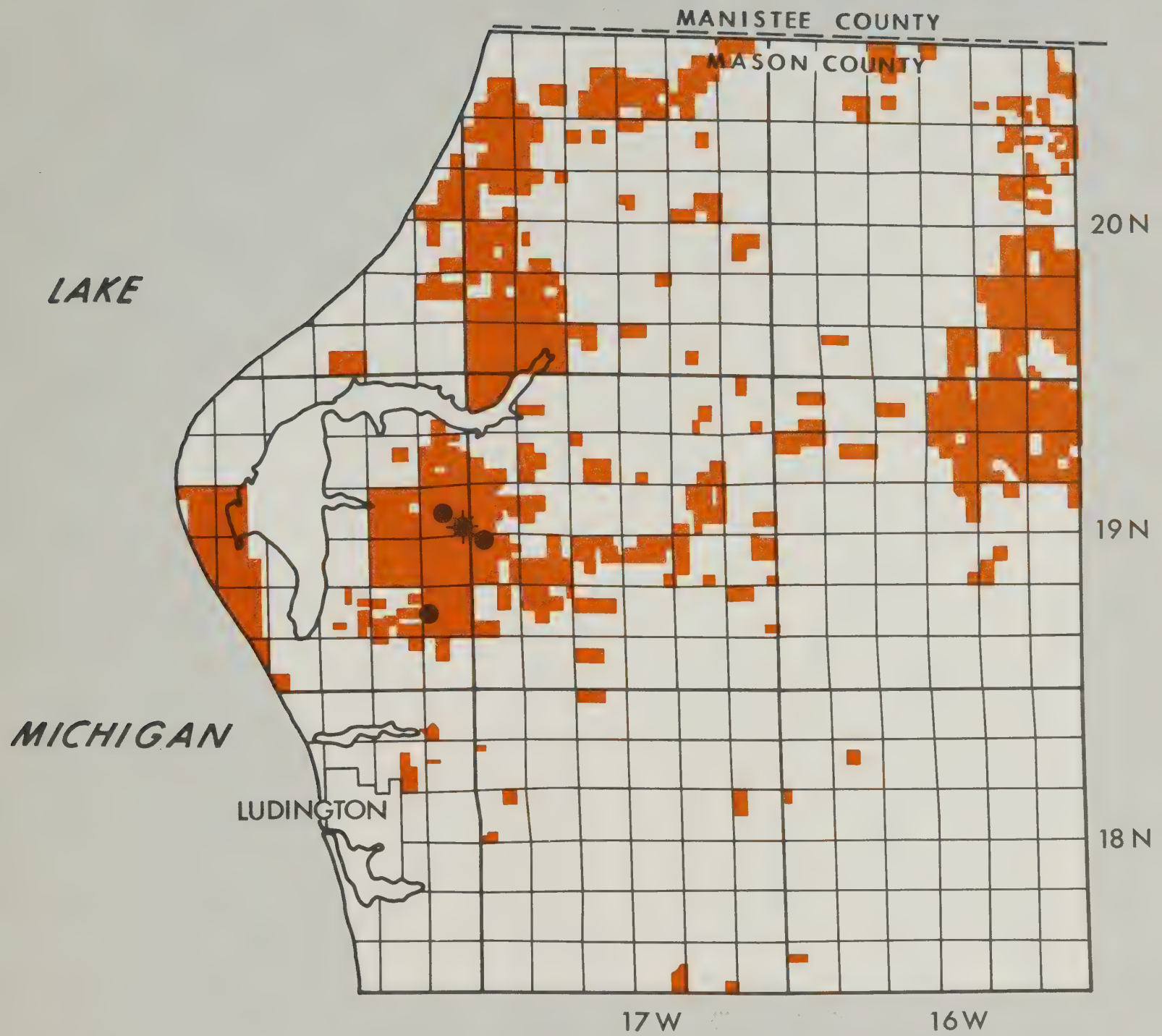


## FIVE YEAR STATISTICAL REVIEW

	1972	1971	1970	1969	1968
<b>OPERATION</b>					
Proven Oil and Condensate Reserves (bbls.) . . .	35,859,501	34,447,800	36,201,647	36,729,033	35,771,142
Probable Oil Reserves (bbls.) . . . . .	9,249,714	8,953,739	9,871,416	9,536,524	10,683,678
Oil and Condensate Production (bbls./year) . . . . .	2,028,611	1,696,569	1,486,547	1,421,357	1,351,430
Proven Gas Reserves (Thousands of Cubic Feet) . . . . .	175,295,000	164,575,000	168,872,000	153,454,000	126,689,000
Probable Gas Reserves (Thousands of Cubic Feet) . . . . .	39,198,000	40,230,000	58,359,000	22,040,000	25,916,000
Natural Gas Sales (Mcf/year) . . . . .	4,437,506	4,128,975	3,847,422	2,636,178	1,873,821
Gross Land Holdings (acres) . . . . .	38,709,891	38,615,713	38,493,422	110,971,379	110,864,874
Net Land Holdings (acres) . . . . .	4,290,767	4,436,335	4,608,843	8,599,946	8,424,542
Crude oil refined (barrels) . . . . .	11,091,413	11,084,578	10,641,645	10,657,527	10,693,798
Refined product sales (barrels) . . . . .	15,377,590	14,015,976	12,019,762	11,811,619	10,830,690
Service stations owned or leased long term . . . . .	312	330	342	197	220
Total outlets . . . . .	913	918	905	767	750
<b>FINANCIAL (U.S. Dollars)</b>					
Total Revenues . . . . .	\$101,166,000	\$88,337,000	\$75,410,000	\$75,181,000	\$68,108,000
Cash flow from operations . . . . .	\$ 8,249,000	\$ 7,550,000	\$ 6,054,000	\$ 6,211,000	\$ 6,142,000
Net Income . . . . .	\$ 3,152,000	\$ 2,166,000	\$ 1,841,000	\$ 2,493,000	\$ 2,829,000



# MICHIGAN AREA



● OIL WELL

★ GAS WELL

■ LAND IN WHICH TOTAL HOLDS INTERESTS  
RANGING FROM 54% TO 88%.









**TOTAL**  
Refining & Marketing  
Headquarters

MICHIGAN

Alma  
Detroit

NEW YORK

New York

PENNSYLVANIA

OHIO

ILLINOIS

INDIANA

MISSOURI

VIRGINIA

WISCONSIN

ONTARIO

QUEBEC

NEW  
BRUNSWICK

P.E.I.

NOVA SCOTIA  
Halifax

SABLE  
IS.

St. John's

LABRADOR  
SEA

GREENLAND

BAFFIN BAY

DAVIS  
STRAIT

BAFFIN  
ISLAND

ELLESMERE  
ISLAND

DEVON ISLAND

ERSSET  
IS.

RCLE

RIES

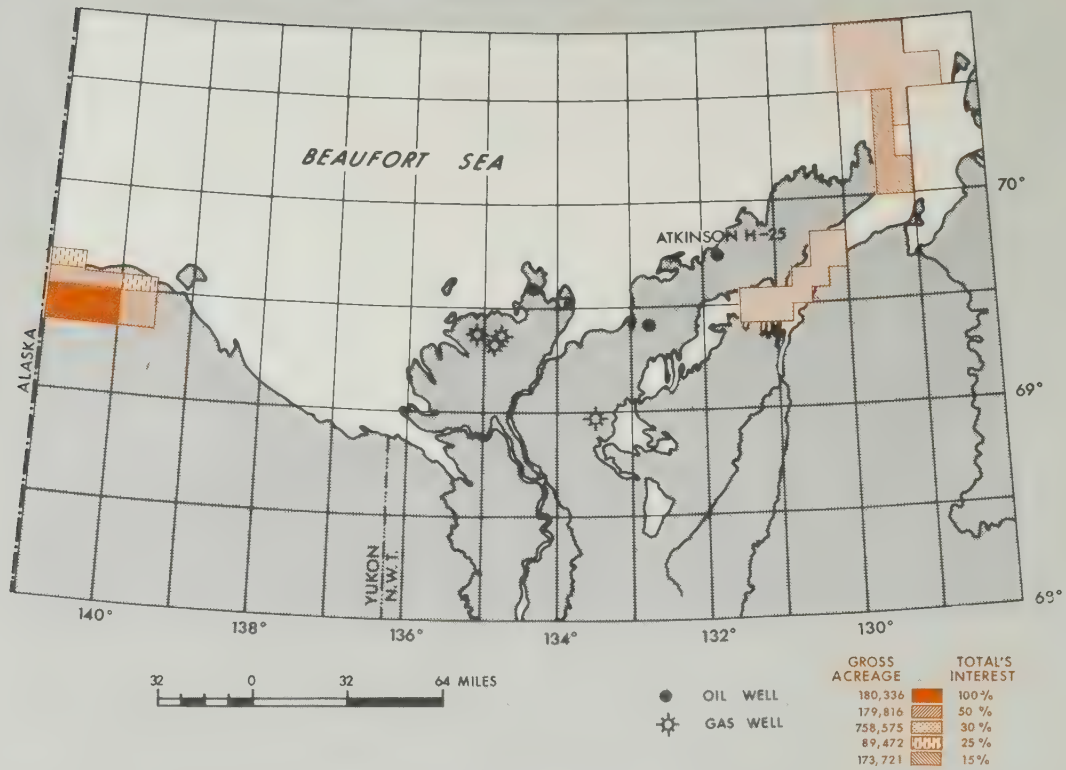
Churchill

NESOTA

IOWA



## MACKENZIE DELTA AREA



## LABRADOR SEA AREA





**TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES**

**Consolidated Statements of Income  
and Retained Earnings**

(United States Dollars)

**INCOME**

Year ended December 31

	<u><b>1972</b></u>	<u><b>1971</b></u>
Revenue:		
Net sales of refined products . . . . .	\$ 94,912,000	\$ 83,000,000
Net sales of crude oil and natural gas . . . . .	5,506,000	4,570,000
Other income . . . . .	748,000	767,000
	<u>101,166,000</u>	<u>88,337,000</u>
Expenses:		
Purchased crude oil, products and merchandise . . . . .	62,175,000	54,273,000
Operating . . . . .	12,137,000	11,765,000
Marketing and administrative . . . . .	15,843,000	13,620,000
Depreciation, depletion and amortization . . . . .	5,977,000	5,395,000
Interest on long term debt . . . . .	3,320,000	3,061,000
Other interest . . . . .	109,000	324,000
United States income taxes (Notes 1 and 4) . . . . .	(1,547,000)	(2,267,000)
	<u>98,014,000</u>	<u>86,171,000</u>
Net income for the year . . . . .	<u>\$ 3,152,000</u>	<u>\$ 2,166,000</u>
Net income per Common share (Note 6) . . . . .	<u>\$ .33</u>	<u>\$ .19</u>

**RETAINED EARNINGS**

Balance, beginning of year . . . . .	\$ 12,780,000	\$ 11,477,000
Net income for the year . . . . .	3,152,000	2,166,000
	<u>15,932,000</u>	<u>13,643,000</u>
Dividends on Series A Preferred shares . . . . .	861,000	863,000
Balance, end of year . . . . .	<u>\$ 15,071,000</u>	<u>\$ 12,780,000</u>




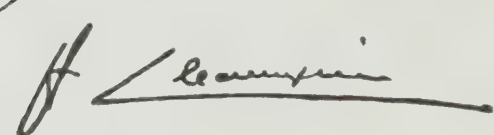
TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

Consolidated Balance Sheets

(United States Dollars)

Assets

December 31

	<u>1972</u>	<u>1971</u>
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 3,711,000	\$ 3,072,000
Short term investments, at cost . . . . .	3,269,000	1,867,000
Accounts and notes receivable, less allowance for doubtful accounts of \$713,000 (1971 - \$877,000) . .	9,916,000	9,832,000
Income tax refunds receivable (Note 4) . . . . .	—	1,697,000
Platformer construction advances . . . . .	—	2,335,000
Inventories of purchased crude oil, products and merchandise (Note 1) . . . . .	7,624,000	12,083,000
Inventories of materials and supplies (Note 1) . . . .	1,004,000	1,003,000
Prepaid expenses and deposits . . . . .	1,135,000	1,530,000
	<u>26,659,000</u>	<u>33,419,000</u>
<b>LONG TERM RECEIVABLES AND OTHER ASSETS:</b>		
Notes receivable . . . . .	2,684,000	2,783,000
Other assets and deferred charges . . . . .	294,000	469,000
	<u>2,978,000</u>	<u>3,252,000</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b> (Notes 1 and 2) . . . . .	141,541,000	133,420,000
Less - Accumulated depreciation, depletion and amortization . . . . .	39,718,000	35,837,000
	<u>101,823,000</u>	<u>97,583,000</u>
<b>APPROVED ON BEHALF OF THE BOARD:</b>		
 Director		
 Director		
	<u>\$131,460,000</u>	<u>\$134,254,000</u>



## Liabilities

December 31

	<u>1972</u>	<u>1971</u>
<b>CURRENT LIABILITIES:</b>		
Notes payable to banks . . . . .	\$ —	\$ 5,010,000
Accounts payable and other accrued liabilities . . . . .	8,558,000	8,443,000
Accrued taxes . . . . .	2,119,000	2,261,000
Current portion of long term debt (Note 3) . . . . .	4,489,000	3,598,000
	<u>15,166,000</u>	<u>19,312,000</u>
<b>LONG TERM DEBT (Note 3)</b>	40,541,000	40,399,000
<b>DEFERRED CREDITS:</b>		
Deferred production income and other . . . . .	1,266,000	1,471,000
Deferred United States income taxes (Notes 1 and 4) . . . . .	79,000	959,000
	<u>1,345,000</u>	<u>2,430,000</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock (Note 5)		
Authorized —		
5,000,000 Preferred shares of \$20 (U.S.) par value each, issuable in series, of which 1,303,000 shares have been designated as \$.70 (U.S.) Non-Cumulative Preferred shares, Convertible Series A		
12,000,000 Common shares of the par value of \$1 (Can.)		
Outstanding —		
1,229,728 Series A Preferred shares . . . . .	24,595,000	24,601,000
7,022,162 Common shares . . . . .	6,518,000	6,517,000
Contributed surplus (Note 5) . . . . .	28,224,000	28,215,000
Retained earnings . . . . .	15,071,000	12,780,000
	<u>74,408,000</u>	<u>72,113,000</u>
<b>COMMITMENTS (Note 8)</b>		
	<u>\$131,460,000</u>	<u>\$134,254,000</u>



TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

Consolidated Statements of Changes  
In Financial Position

(United States Dollars)

Year ended December 31

	1972	1971
Financial resources were provided by:		
Operations		
Net income for the year . . . . .	\$ 3,152,000	\$ 2,166,000
Income charges (credits) affecting working capital in the year:		
Depreciation, depletion and amortization . . . . .	5,977,000	5,395,000
United States deferred income taxes . . . . .	(880,000)	(11,000)
Financial resources provided by operations . . . . .	8,249,000	7,550,000
Additional long term borrowings . . . . .	5,547,000	10,140,000
Proceeds from sales of future production . . . . .	458,000	—
Sale of properties . . . . .	688,000	839,000
Issuance of common stock . . . . .	4,000	3,222,000
Other . . . . .	425,000	293,000
Total financial resources provided . . . . .	15,371,000	22,044,000
Financial resources were used for:		
Capital expenditures		
Petroleum and natural gas interests and production equipment . . . . .	6,277,000	5,984,000
Refining, marketing and transportation . . . . .	4,605,000	5,003,000
Other . . . . .	23,000	170,000
Long term debt paid or reclassified to current liabilities . . . . .	5,405,000	7,466,000
Dividends paid . . . . .	861,000	863,000
Reductions of deferred income . . . . .	814,000	2,088,000
Total financial resources used . . . . .	17,985,000	21,574,000
Increase (decrease) in working capital . . . . .	(\$ 2,614,000)	\$ 470,000
Changes in components of working capital:		
Working capital, beginning of year . . . . .	\$ 14,107,000	\$ 13,637,000
Increase (decrease) in current assets:		
Cash and short term investments . . . . .	2,041,000	(3,134,000)
Accounts and notes receivable . . . . .	84,000	1,074,000
Income tax refunds receivable . . . . .	(1,697,000)	1,697,000
Platformer construction advances . . . . .	(2,335,000)	2,335,000
Inventories . . . . .	(4,458,000)	2,052,000
Other . . . . .	(395,000)	375,000
. . . . .	(6,760,000)	4,399,000
(Increase) decrease in current liabilities:		
Notes payable to banks . . . . .	5,010,000	(1,510,000)
Accounts payable and other accrued liabilities . . . . .	(115,000)	(874,000)
Accrued taxes . . . . .	142,000	(356,000)
Current portion of long term debt . . . . .	(891,000)	(1,189,000)
. . . . .	4,146,000	(3,929,000)
Working capital, end of year . . . . .	\$ 11,493,000	\$ 14,107,000



TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 1. ACCOUNTING POLICIES:

The significant accounting policies followed by Total Petroleum and its subsidiaries are presented here to assist the reader in reviewing the financial information contained in this report.

**PRINCIPLES OF CONSOLIDATION** — The consolidated financial statements include the accounts of all subsidiaries.

The Company presents the consolidated financial statements in United States dollars because the majority of the transactions, and the major portion of the working capital and long term debt of the consolidated companies, are in that currency. Canadian assets and liabilities are translated at the rate of exchange in effect at year end except that Property, Plant and Equipment and noncurrent liabilities are translated at the prevailing rates at dates of acquisition. Operating results for the year are translated at the monthly average rate of exchange during the year; depreciation, depletion, and amortization included in operating results are translated at historical rates.

**INVENTORIES** of purchased crude oil, products and merchandise are carried at the lower of cost (first-in, first-out) or net realizable value. Materials and supplies inventories are carried at average cost or less.

**PROPERTY, PLANT AND EQUIPMENT** is carried at cost.

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations over the life of estimated future production (proven reserves) on the unit-of-production method. This method has been followed consistently by the Company since 1965 and by subsidiaries since dates of acquisition. Proceeds of disposals are applied in full against such costs.

Depreciation and amortization are provided using the straight-line method based on estimated useful lives of assets.

**INCOME TAXES** included in the consolidated financial statements are computed on the basis of:

- (i) claiming exploration and development expenditures to the extent they are allowable deductions for tax purposes in the year in which they are incurred regardless of the treatment followed in the accounts. Management does not consider it appropriate in the particular circumstances of the companies to apply the income tax allocation method of accounting to these items, whereby the income tax provision is based on income reported in the accounts. This view conforms with general practice in the oil and gas industry;
- (ii) not providing for taxes which would be payable upon transfer of undistributed earnings of subsidiaries since management believes that remittances of such earnings will not be made in the foreseeable future;
- (iii) providing deferred taxes for other items under the tax allocation method of accounting for income taxes whereby the provision for income taxes each year



is computed on the basis of the depreciation and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.

Investment tax credits, which were not material in 1972 and 1971, are applied as a reduction of income tax expense in the period earned.

EXCISE TAXES collected from customers are excluded from the Consolidated Statements of Income.

PENSION PLANS cover substantially all of the Company's employees. Current cost and accruals for prior service costs (accrued over periods from 21 to 30 years) are funded currently.

## 2. PROPERTY, PLANT AND EQUIPMENT:

Property, Plant and Equipment classified by functional groupings is as follows (see also Note 3):

	<u>1972</u>	<u>1971</u>
Petroleum and natural gas interests	\$ 63,448,000	\$ 57,944,000
Production equipment	4,270,000	3,613,000
Refining	18,575,000	17,665,000
Marketing	39,410,000	39,229,000
Supply and transportation	14,333,000	13,549,000
Other	1,505,000	1,420,000
	<u>141,541,000</u>	<u>133,420,000</u>
Less, Accumulated depreciation, depletion and amortization*	<u>39,718,000</u>	<u>35,837,000</u>
	<u>\$101,823,000</u>	<u>\$ 97,583,000</u>

\*Including accumulated depletion related to petroleum and natural gas interests of \$13,785,000 and \$11,459,000 at December 31, 1972 and 1971, respectively.

## 3. LONG TERM DEBT:

The following summarizes the consolidated long term debt:

Note payable on December 1, 1975 at prime rate plus 1¾ % (secured by certain oil and gas properties)	\$10,000,000
Notes payable, due in monthly instalments of \$143,000 to July 1976 and \$59,000 thereafter to April 1979 plus interest at prime rate plus 1% and 1½ % (certain oil and gas properties pledged, subordinated to other debt)	8,137,000
First real estate mortgage notes (lien on acquired property) due in quarterly instalments of \$125,000 from 1973 to 1977 and \$175,000 from 1978 to 1982, at prime rate plus 1%	5,875,000
Notes payable in annual instalments of \$600,000 to March 1, 1977, at 5¾ %	3,000,000
Term loan, due in quarterly instalments of \$187,500 to October 1, 1973, at prime rate plus ¾ %	563,000
Note payable on June 30, 1977 (subordinated to other debt) at prime rate plus 1¾ %	4,000,000
Other secured debt, at 4% to 9¼ %	13,063,000
Other notes payable, at 6% to 8½ %	392,000
	<u>45,030,000</u>
Less, 1973 maturities	<u>4,489,000</u>
	<u>\$40,541,000</u>

Minimum annual maturities of long term debt for the next five years are:

1973 - \$4,489,000	1974 - \$3,909,000	1975 - \$13,910,000
1976 - \$3,372,000	1977 - \$6,807,000	



#### 4. INCOME TAXES:

At December 31, 1972 the Company had approximately \$29,600,000 of drilling, exploration and lease acquisition costs and \$4,200,000 of undepreciated costs remaining to be carried forward (without limit as to time) to be applied against future income for Canadian tax purposes.

Due principally to the deduction for United States income tax purposes of certain exploration and development expenditures, the Company's United States subsidiary reported a loss on its 1971 income tax returns and will report a loss on its 1972 income tax returns. After recovering previously paid income taxes available and eliminating \$550,000 of net deferred taxes in 1972 which will reverse during the loss carryforward period, an estimated loss of \$1,500,000 (expiring in 1977) remains to be carried forward to reduce United States taxes which would otherwise be payable.

At December 31, 1972 and 1971 undistributed earnings of subsidiaries amounted to \$19,039,000 and \$17,958,000, respectively. Taxes payable upon distribution, which would amount to approximately 15%, have not been provided since management believes that such earnings will not be distributed in the foreseeable future.

If the Company had followed the income tax allocation method of accounting with respect to exploration and development expenditures (Note 1), a deferred tax provision of \$2,047,000 in 1972 and \$2,296,000 in 1971 would have been charged against income in the respective years. The accumulated deferred income taxes, as shown in the balance sheet, at December 31, 1972 would have been increased by \$4,563,000.

#### 5. CAPITAL STOCK, CONTRIBUTED SURPLUS AND SHARE OPTIONS:

Changes in issued capital stock and contributed surplus are summarized below:

	<i>Par Value</i>		
	<i>Series A Preferred Shares</i>	<i>Common Shares</i>	<i>Contributed Surplus</i>
Balance, January 1, 1971	\$24,845,000	\$6,087,000	\$25,179,000
Redemption of long term debt (413,237 shares)	—	403,000	2,797,000
Exercise of stock options (2,910 shares) and conversion of 12,220 Series A Preferred shares into 24,440 Common shares	(244,000)	27,000	239,000
Balance, December 31, 1971	24,601,000	6,517,000	28,215,000
Exercise of stock options (500 shares) and conversion of 309 Series A Preferred shares into 618 Common shares	(6,000)	1,000	9,000
Balance, December 31, 1972	<u>\$24,595,000</u>	<u>\$6,518,000</u>	<u>\$28,224,000</u>

Each Series A Preferred share is convertible at any time, at the option of the holder, into Common shares of Total Petroleum at the rate of two Common shares for each Series A Preferred share converted, such rate of conversion being subject to adjustment in specified circumstances. Series A Preferred shares may be redeemed by the Company after December 31, 1975 at \$20 per share.

The following options of officers and employees to purchase Common shares of the Company were outstanding at December 31, 1972:

<i>Granted</i>	<i>Expires</i>	<i>Number of Shares</i>	<i>Option price per share</i>
July 23, 1968	July 22, 1973	73,200	\$8.16 (U.S.)
January 15, 1969	January 14, 1974	13,600	7.25 (Can.)
March 18, 1969	March 16, 1974	9,400	7.97 (U.S.)
December 4, 1969	January 14, 1974	3,250	7.25 (Can.)
March 31, 1971	March 30, 1976	30,000	6.00 (Can.)
		<u>129,450</u>	



Of the foregoing, 58,500 shares were under option to directors and officers of the Company. All of the outstanding options are exercisable cumulatively during the duration of the options and may be exercised only so long as the holders continue in the employ of the Company.

Options to purchase 9,050 Common shares were cancelled during 1972 due to termination of employment.

#### 6. EARNINGS PER SHARE:

Earnings available to Common shares are net income for the year reduced by payments of dividends to the Series A Preferred shareholders. Such payments aggregated \$861,000 in 1972 and \$863,000 in 1971.

The weighted average number of Common shares outstanding was 7,021,207 and 6,826,777 in 1972 and 1971, respectively. Series A Preferred shares and share options (Common share equivalents) are anti-dilutive and insignificantly dilutive, respectively, in each of the years presented.

#### 7. PENSION PLANS:

Pension expense for all plans was \$577,000 in 1972 and \$575,000 in 1971. Unfunded prior service costs aggregated \$2,043,000 at December 31, 1972.

#### 8. COMMITMENTS:

Long term lease commitments, at capitalized amounts, approximate \$8,500,000 at December 31, 1972. Annual rental payments under such leases will gradually decrease from approximately \$1,110,000 in 1973 to \$660,000 in 1986 with nominal payments required after 1986.

Aggregate rentals paid, excluding land rents associated with exploration, development and production activities, totalled \$1,298,000 in 1972 as compared to \$947,000 in 1971. Rental income from lease of service stations to independent operators was \$1,271,000 in 1972 and \$1,458,000 in 1971.

#### 9. STATUTORY INFORMATION:

The total direct remuneration of directors and officers of the Company in 1972 was as follows:

	<i>Directors</i>		<i>Officers</i>		<i>Officers</i>
	<i>No.</i>	<i>Amount</i>	<i>No.</i>	<i>Amount</i>	<i>who are also</i> <i>Directors</i>
Total Petroleum (North America) Ltd. . . . .	10	\$14,200	7	\$171,300	1
TOTAL Leonard, Inc. . . . .	1	35,000	3	122,100	1
	<u>11</u>	<u>\$49,200</u>	<u>10</u>	<u>\$293,400</u>	<u>2</u>

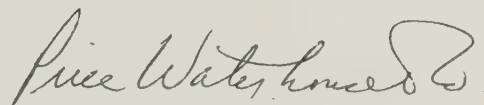


## Report of Independent Accountants

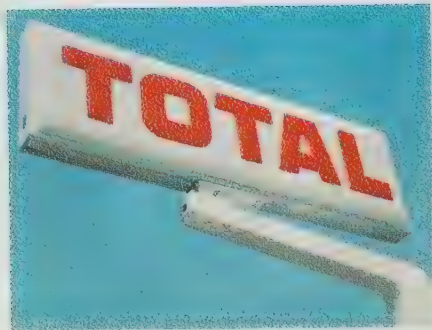
TO THE SHAREHOLDERS OF  
TOTAL PETROLEUM (NORTH AMERICA) LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1972 and 1971, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Detroit, Michigan  
February 12, 1973

A handwritten signature in cursive script, likely reading "Price Waterhouse & Co.", is written in dark ink.







**TOTAL PETROLEUM  
(NORTH AMERICA) LTD.**

**TOTAL**

**INTERIM REPORT**  
SIX MONTHS ENDED JUNE 30  
**1972**



## *To The Shareholders:*

During the first half of 1972 the net income of your Company was \$1,161,000 compared to \$764,000 for the corresponding period of last year.

### **PRODUCTION**

Crude oil and condensate production resulting from the combined operations of your Company and its subsidiaries during the first six months of this year amounted to 945,042 barrels (5,193 barrels per day) representing an increase of 18% over the comparative total of 801,632 barrels (4,429 barrels per day) for the first half of last year. Natural gas sales increased by 15½% to an average of 12,652 Mcf per day compared with 11,001 Mcf per day during the first half of 1971.

### **EXPLORATION AND DEVELOPMENT**

During the first half of this year, your Company drilled or participated in the drilling of eleven wells in various areas of Alberta, in northeast British Columbia and in the State of Michigan. This program resulted in three oil development wells (two of them being extensions to recognized fields), four unsuccessful exploratory tests and four wells in the process of being drilled at the end of the period. In addition, five farmout wells were drilled without cost to the Company on lands in which the Company holds interests, all of these proving non-productive.

Of the four wells drilling at the end of the period under review, two have now resulted in discoveries (one gas and one oil) and are presently undergoing testing operations to determine the extent of production capability in each case. One of these — Malstrom-Williams et al No. 1-13, represents the second Niagaran Reef find in which your Company has participated in Michigan, the first being Shell et al Myers #2-28 drilled in Kalkaska County in December, 1971.



The following announcement was released by your Company on August 3, 1972, concerning this most recent discovery:

"ALMA, Mich. — TOTAL Leonard Inc., a wholly-owned subsidiary of TOTAL Petroleum (North America) Ltd., today announced its participation in a significant oil discovery in the state of Michigan.

The well, Malstrom-Williams et al No. 1-13, is located in Hamlin Township, Mason County, near the city of Ludington.

The discovery well was drilled as a Silurian Niagaran Reef test, and encountered approximately 500 feet of reefal buildup. Casing was set in the hole in late June but completion and production testing were deferred until scheduled Michigan State mineral lease sales had been completed in July.

Production testing is now proceeding and early results, together with extrapolations of flowing rates and pressure performances, indicate a commercial discovery with initial production in the order of 300 barrels per day of high-gravity, sweet crude oil.

TOTAL Leonard's participation in the Malstrom discovery is 54 percent. Miller Bros., a Michigan independent, is the operator of the well.

TOTAL and its associates have acquired a dominant land position in the area of the discovery and will be pursuing an aggressive program of geophysical surveying and exploratory drilling as a follow-up to this indicated success".

As a result of the Malstrom well and other exploratory activity including seismic surveys, your Company was one of the most active participants at the Michigan State mineral lease sale held during June and July, purchasing, at a cost of \$1,220,000, approximately 190,000 gross (88,000 net) acres of mineral leases out of the 426,000 acres which were sold for a grand total



of \$9,640,971. This acquisition has more than doubled the Company's holdings in Michigan, its total acreage in this area now amounting to 311,000 gross (171,000 net) acres of mineral leases.

## **REFINING**

In the first half of 1972 the Alma refinery processed 5,177,852 barrels of crude oil, down slightly from the 5,495,107 barrels processed in the first six months of 1971. Routine processing unit shutdowns for clean-out and metals inspection caused this decrease. The shutdowns have been completed and the refinery is now operating at maximum capacity.

The new Platformer was completed and put into operation during July. Start up was accomplished with only minor difficulties and the unit has performed as designed. This unit will increase the production of high octane gasoline by nearly 40% and allow your Company to produce the low lead or lead-free gasolines required in the future.

Revamping of crude processing facilities has begun. Completion is expected to be in late fall of this year. The revamped facilities will provide raw material for the new Platformer, as well as additional crude processing capacity.

## **MARKETING**

Total refined product sales volumes for the first six months of 1972 were slightly behind the same six month period of 1971. Substantial gains were made in gasolines, asphalts and aviation fuels, but were offset by the loss of petrochemical and naphtha products formerly manufactured in the Mt. Pleasant refinery.

While gasoline price wars continued in Detroit and other Michigan areas, the price wars have been much less severe during the first six months of 1972 as compared to the same period of 1971.



Your Company's asphalt sales for the first six months of 1972 were substantially higher than any other like period. Asphalt price realizations continue at high levels and are contributing substantially to corporate profits.

The TOTAL Brand Division, organized during the first quarter of 1972, made significant progress during the past three months in developing sales and improving product realizations. A new distributor, selling 13,000,000 gallons annually, was converted to the TOTAL brand in June. This distributor, headquartered in Flint, fills a gap in TOTAL'S Michigan representation.

## FINANCIAL

After deduction of two 17½ cents per share dividends paid to the holders of Series A Preferred shares, net earnings on the Common shares were 10¢ per share in the first half of 1972, compared with 5¢ per share in the same period of 1971. Gross revenue increased to \$47,248,000 from \$44,173,000 in the corresponding period of last year.

The Government of the Province of Alberta has decided that in addition to the revenues it presently receives from the Oil Industry in the form of royalties, rentals, cash bonuses from Petroleum and Natural Gas rights sales, and taxes, that an extra 70 million dollars in 1973 is a "fair and reasonable share" for the Province.

This extra levy may take the form of either an additional royalty, on a sliding scale formula prescribed by the Government of Alberta, or as a tax on proven reserves not yet produced. Each Company holding Petroleum and Natural Gas leases granted by the Alberta Government will have the option to select the system it wishes.

Most of your Company's proven reserves are in Alberta, and although we have not completely analysed the two options available, and



**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

(United States Dollars)

Six Months Ended June 30  
1972 1971

Financial resources were provided by:

## Operations

Net income for the period	\$ 1,161,000	\$ 764,000
Income charges (credits) affecting working capital in the period:		
Depreciation, depletion and amortization	2,906,000	2,527,000
United States deferred income taxes	(24,000)	20,000
Financial resources provided by operations	4,043,000	3,311,000
Additional long term borrowings	5,421,000	2,006,000
Proceeds from sale of future production	458,000	—
Sale of properties	168,000	345,000
Issuance of common stock	—	3,200,000
Other	—	356,000
Total financial resources provided	10,090,000	9,218,000

Financial resources were used for:

## Capital expenditures

Petroleum and natural gas interest and production equipment	2,714,000	2,647,000
Refining marketing and transportation	2,147,000	1,403,000
Other	16,000	121,000
Long-term debt paid or reclassified to current liabilities	2,644,000	4,755,000
Dividends paid	431,000	433,000
Reductions of deferred income	277,000	1,181,000
Other	44,000	—
Total financial resources used	8,273,000	10,540,000

Increase (decrease) in working capital

\$ 1,817,000 (\$ 1,322,000)

Changes in components of working capital:

Working capital, beginning of period	\$14,107,000	\$13,637,000
--------------------------------------	--------------	--------------

Increase (decrease) in current assets:

Cash and short term investments	(226,000)	(4,095,000)
Accounts and notes receivable	5,202,000	3,631,000
Inventories	(3,188,000)	(143,000)
Other	(423,000)	(52,000)
	1,365,000	(659,000)

(Increase) decrease in current liabilities:

Notes payable to banks	660,000	(900,000)
Accounts payable and other accrued liabilities	518,000	274,000
Accrued taxes	(105,000)	51,000
Current portion of long-term debt	(621,000)	(88,000)
	452,000	(663,000)

Working capital, end of period

\$15,924,000 \$12,315,000

**CONSOLIDATED STATEMENT OF INCOME**

(United States Dollars)

Six Months Ended June 30  
1972 1971

## Revenue:

Sales and other income	\$47,248,000	\$44,173,000
------------------------	--------------	--------------

## Costs and expenses:

Purchased crude oil, products and merchandise	29,454,000	28,464,000
Operating expenses	5,466,000	5,973,000
Marketing and administrative expenses	7,148,000	6,343,000
Depreciation, depletion and amortization	2,906,000	2,527,000
Interest	1,709,000	1,604,000
United States income taxes	(596,000)	(1,502,000)
	46,087,000	43,409,000

Net income for the period

\$ 1,161,000 \$ 764,000

Earnings per common share

\$ .10 \$ .05

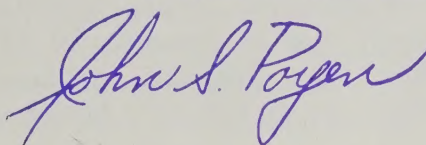
NOTE: Earnings per common share are computed on the weighted average of the Common Shares outstanding during each six month period, being 7,021,044 shares and 6,631,065 shares during the 1972 and 1971 periods, respectively. The amount of earnings available to the common shareholders is the net income for the period reduced by the dividends paid to the holders of the Series A Preferred shares. Dividends to the Series A Preferred shareholders were at the rate of 35 cents per share in each of the reported periods, \$431,000 and \$433,000 in 1972 and 1971 respectively. Full conversion of the Preferred shares into common shares would not have diluted earnings per common share in either period.

The financial statements include all normal adjustments and accruals, but are unaudited.



therefore have not determined their relative impacts on our revenue generation, we believe the effect will be a 5 to 10 percent decrease in net income from crude production. This negative result could, of course, be offset by increases in well-head price of crude, or expanded market opportunities.

Submitted on behalf of  
the Board of Directors,



JOHN S. POYEN,  
*President*

August 24, 1972.

#### OPERATING AND LAND DATA

	<i>Six Months Ended June 30</i>	
	<u>1972</u>	<u>1971</u>
Crude oil and condensate production (bbls.) ....	945,042	801,632
Average bbls. per day ....	5,193	4,429
Natural gas sales (Mcf) .....	2,302,603	1,991,204
Average Mcf per day ....	12,652	11,001
Refined product sales (bbls.) .....	7,183,524	7,277,714
Crude oil refined (bbls.) .....	5,117,852	5,495,107
Gross land holdings (acres) .....	38,903,558	38,088,157
Net land holdings (acres) .....	4,386,521	4,306,765



